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The Global Economic and Mining Outlook

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Macroeconomic setting: a *slow* recovery

Global growth has been around 2.5% for the past three years, but the composition has changed: stronger in the US and weaker elsewhere.

The US economy roared back in the second quarter and growth in the second half will be in the 3% to 3.5% range.

The Eurozone stalled in the second quarter, but weak growth is likely to resume in the second half.

Japan's suffered a tax related contraction in the second quarter, but will be a rebound in the third.

Recent Chinese data look weak, but the government will ensure growth remains at 7% or higher.

Other big emerging markets: India is a bright spot, but Brazil and Russia are in recession.

A *slow* acceleration in growth

Real GDP growth

	2013	2014	2015	2016
Eurozone	-0.4	0.8	1.3	1.6
Japan	1.5	1.0	1.1	0.8
United States	2.2	2.3	2.7	2.9
China	7.7	7.3	7.1	7.1
India	5.0	5.5	6.3	6.8
Brazil	2.5	-0.1	1.0	3.2
World	**2.6**	**2.7**	**3.2**	**3.6**

Why the anemic rebound?

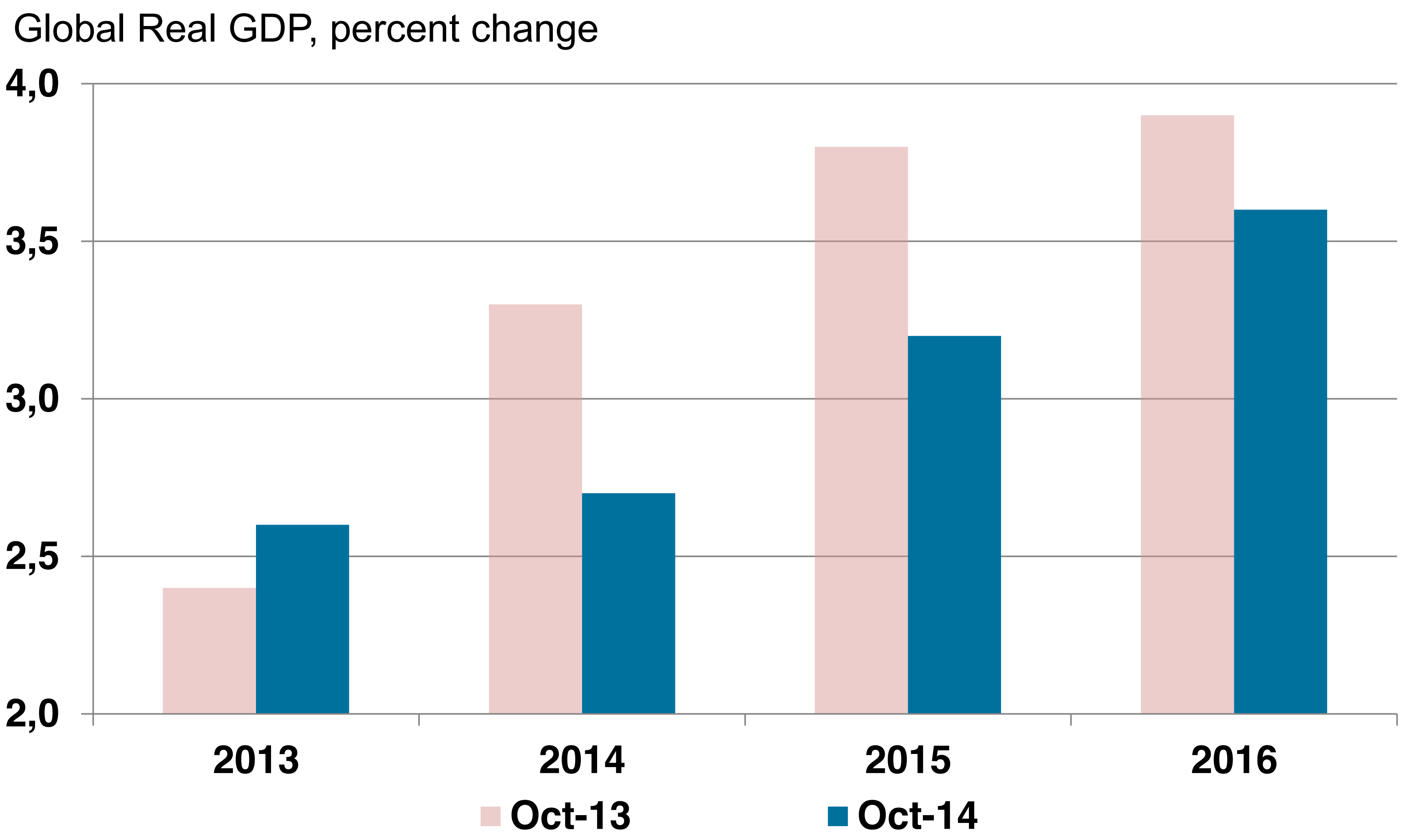
1) Hangover from the 2008-09 financial crisis. Consumer and business have both become more conservative, delaying consumption and investment.

2) Legacy of the global trade imbalances of the 1990s and 2000s when China and other emerging markets ran large surpluses and the U.S. and others large deficits.

These large imbalances boosted emerging market growth and led to a surge in commodity demand. But this growth model depended on spending by America and Europe. When spending declined, the bubble bust.

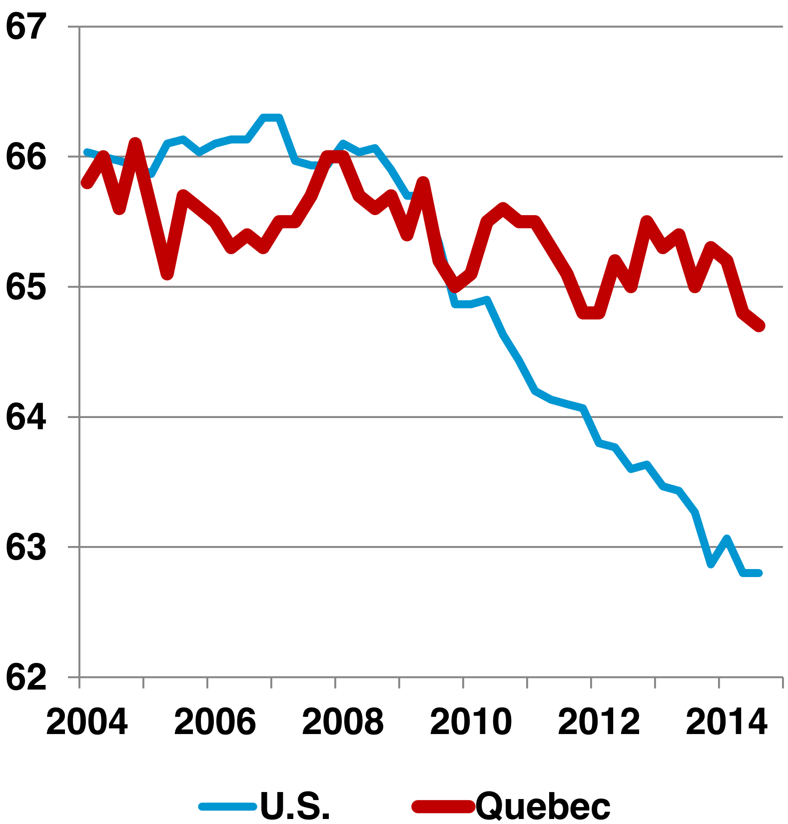
3) Structural problem of maintaining maturing [i.e. slower growing] welfare states.

A downward revision from last year

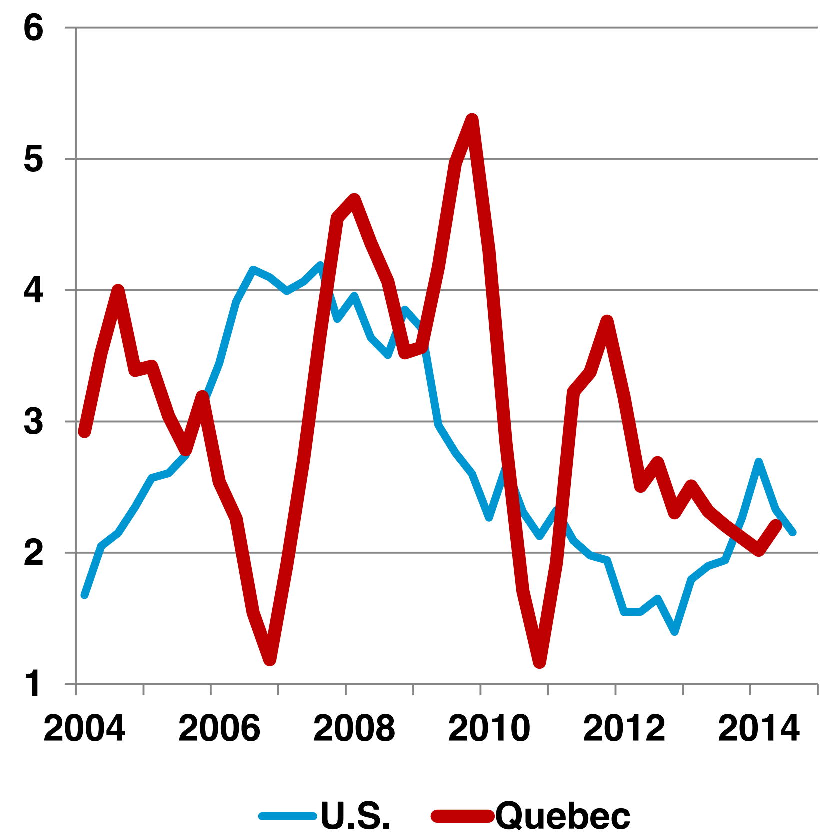


North America: a bright spot – with a catch

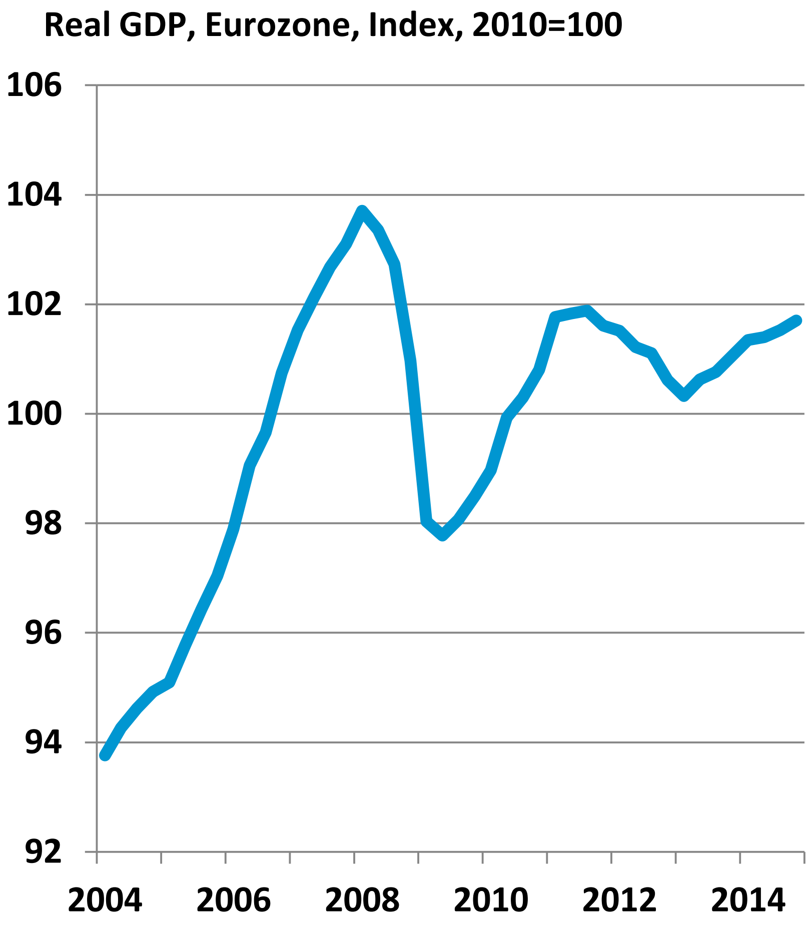
Labor Participation Rates, percent

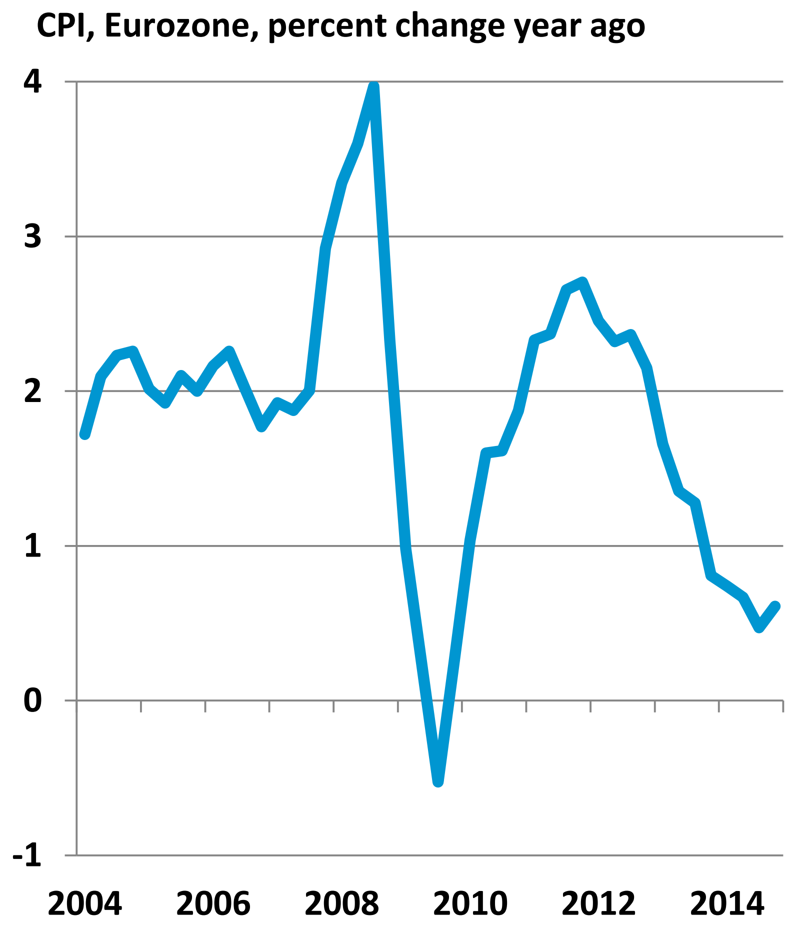


Average Hourly Earnings, percent change year ago



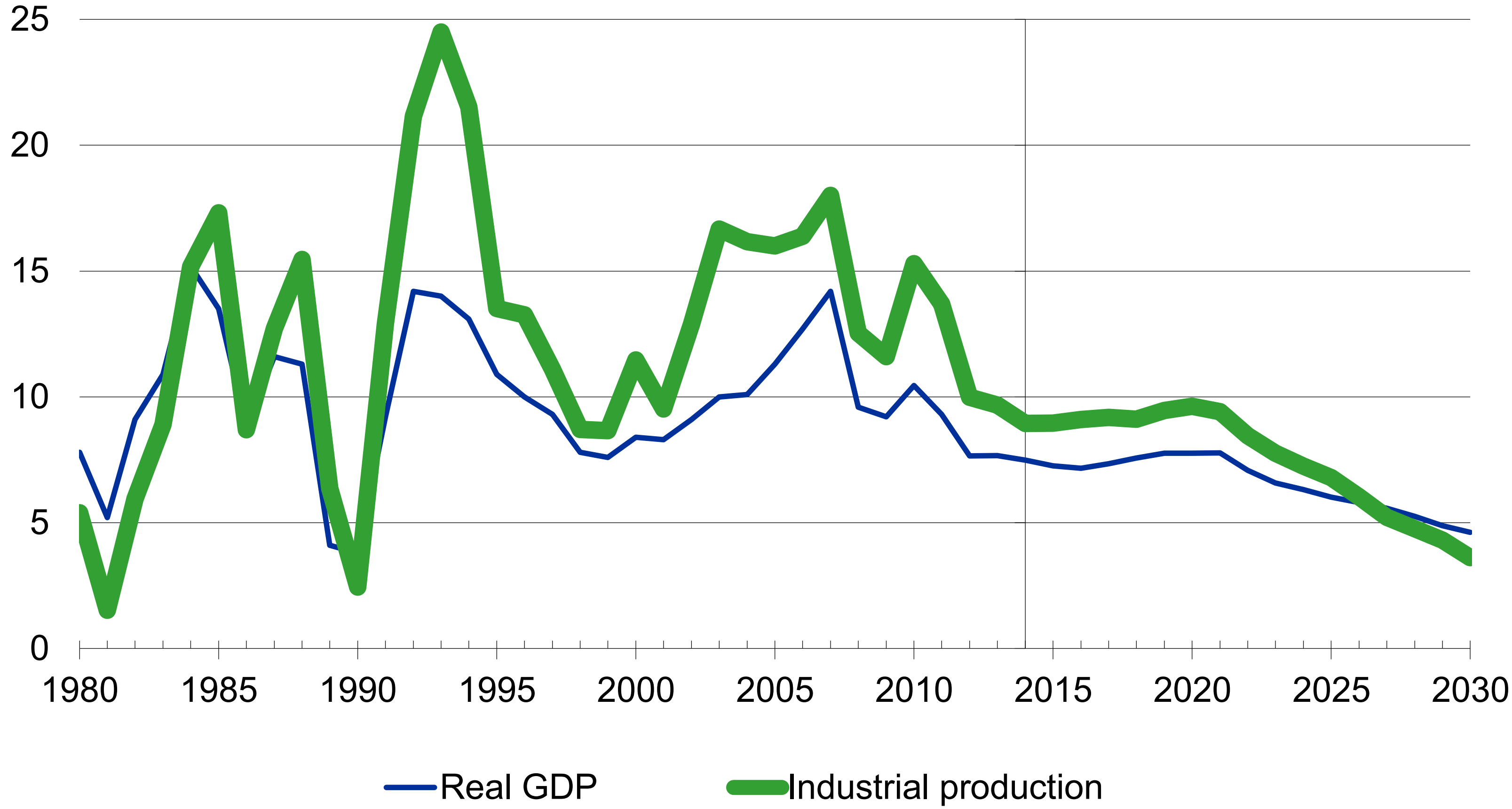
Eurozone: the threat of deflation highlights the weakness of the recovery





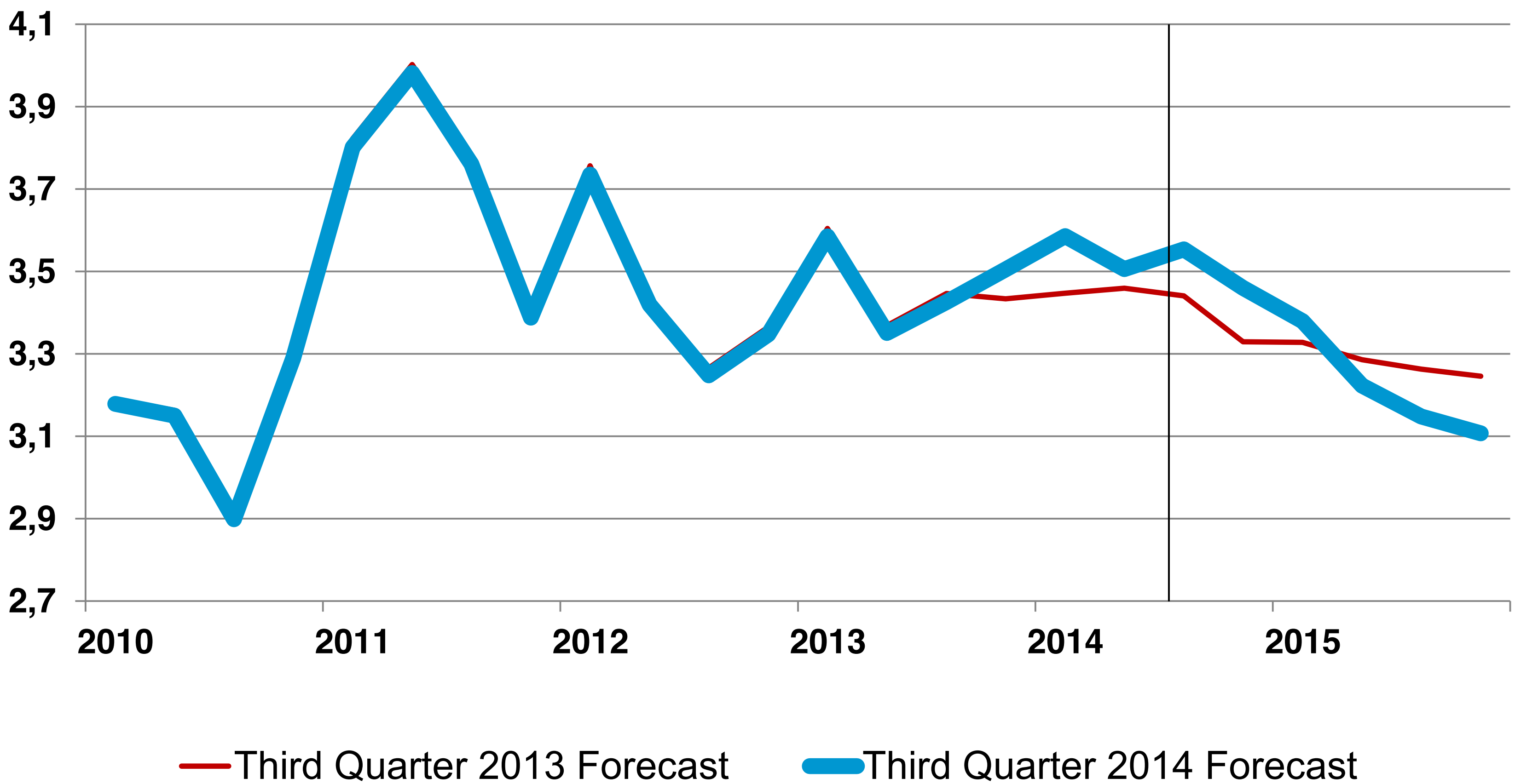
China: a structural downshift

Real GDP and industrial production, percent change



Commodity price inflation continues to look contained

IHS Materials Price Index, 2002w1=1.0



Cost Environment: from Supercycle to an era of abundance?

What does the recent drop in commodity prices mean?

Demand growth will improve, but not to the rates seen during the last decade

Capacity looks adequate or in some industries ample (steel, aluminum, rubber). There is room for this recovery to grow into

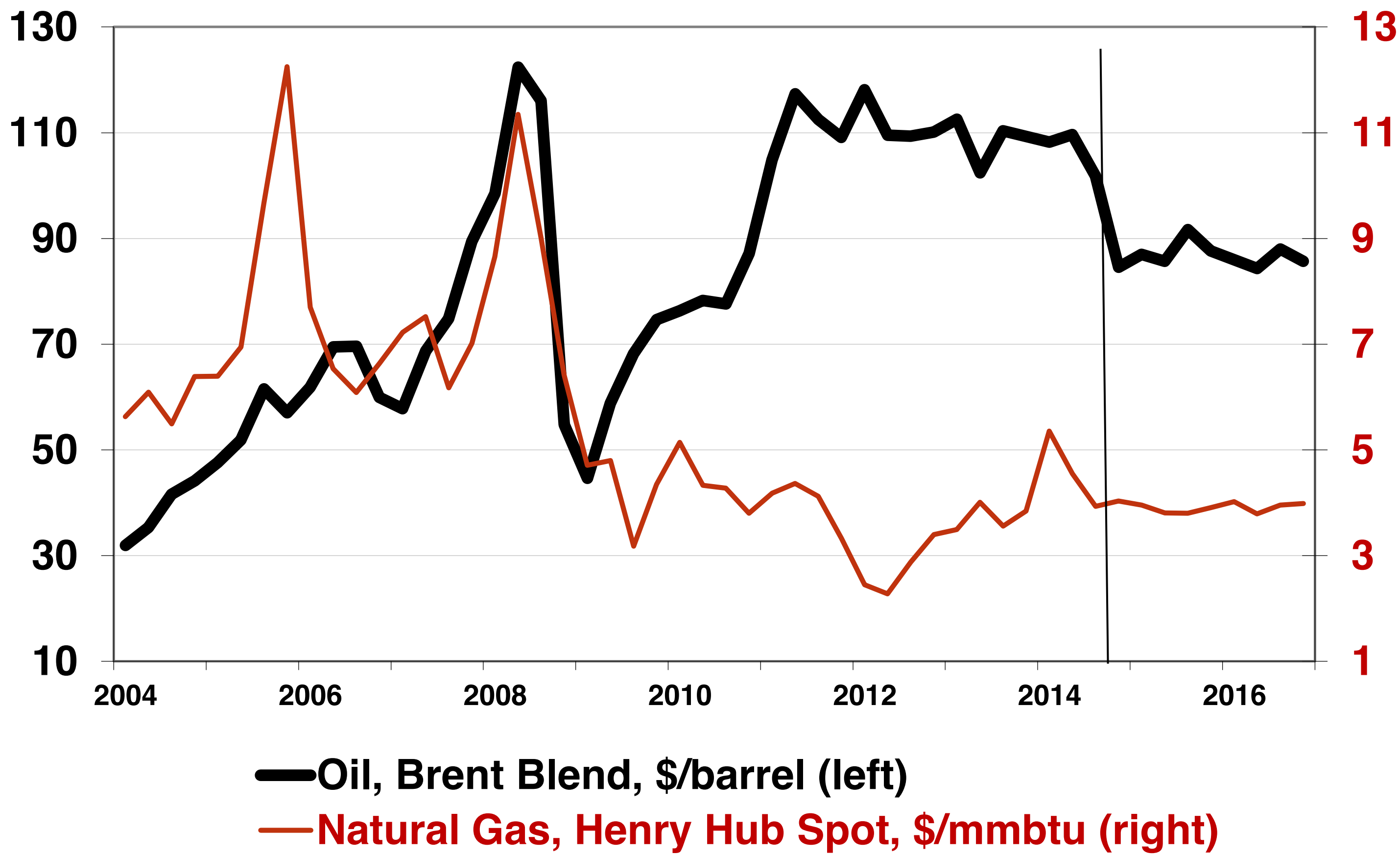
- Watch the PMI “leverage gauge” data closer for signs of a change

Investor demand will wane as monetary policy tightens, helping to restrain prices

Markets looks supported rather than under pressure going forward

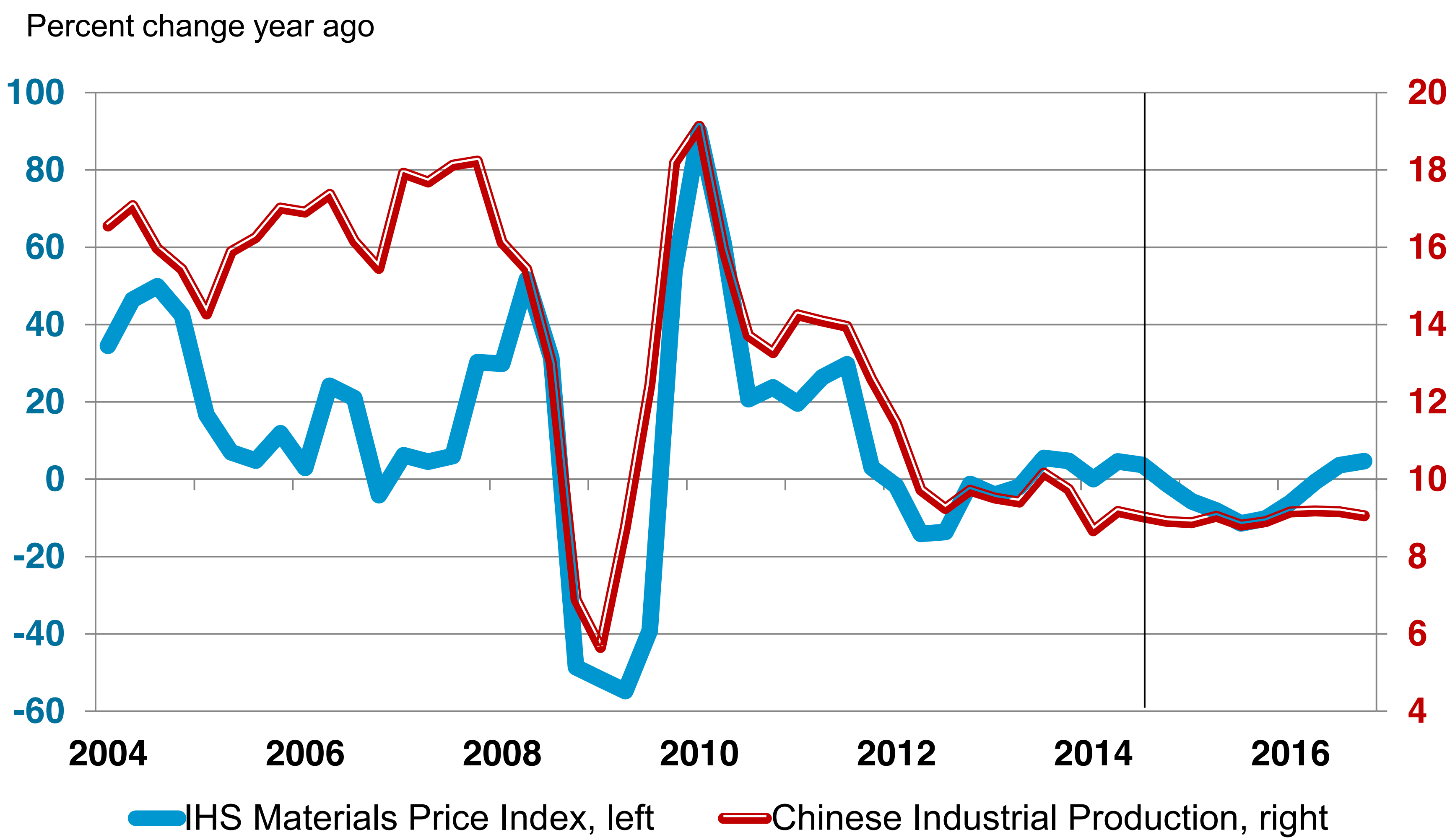
Energy markets – no cost pressure through the medium-term

Price of Dated Brent crude oil and Henry Hub natural gas

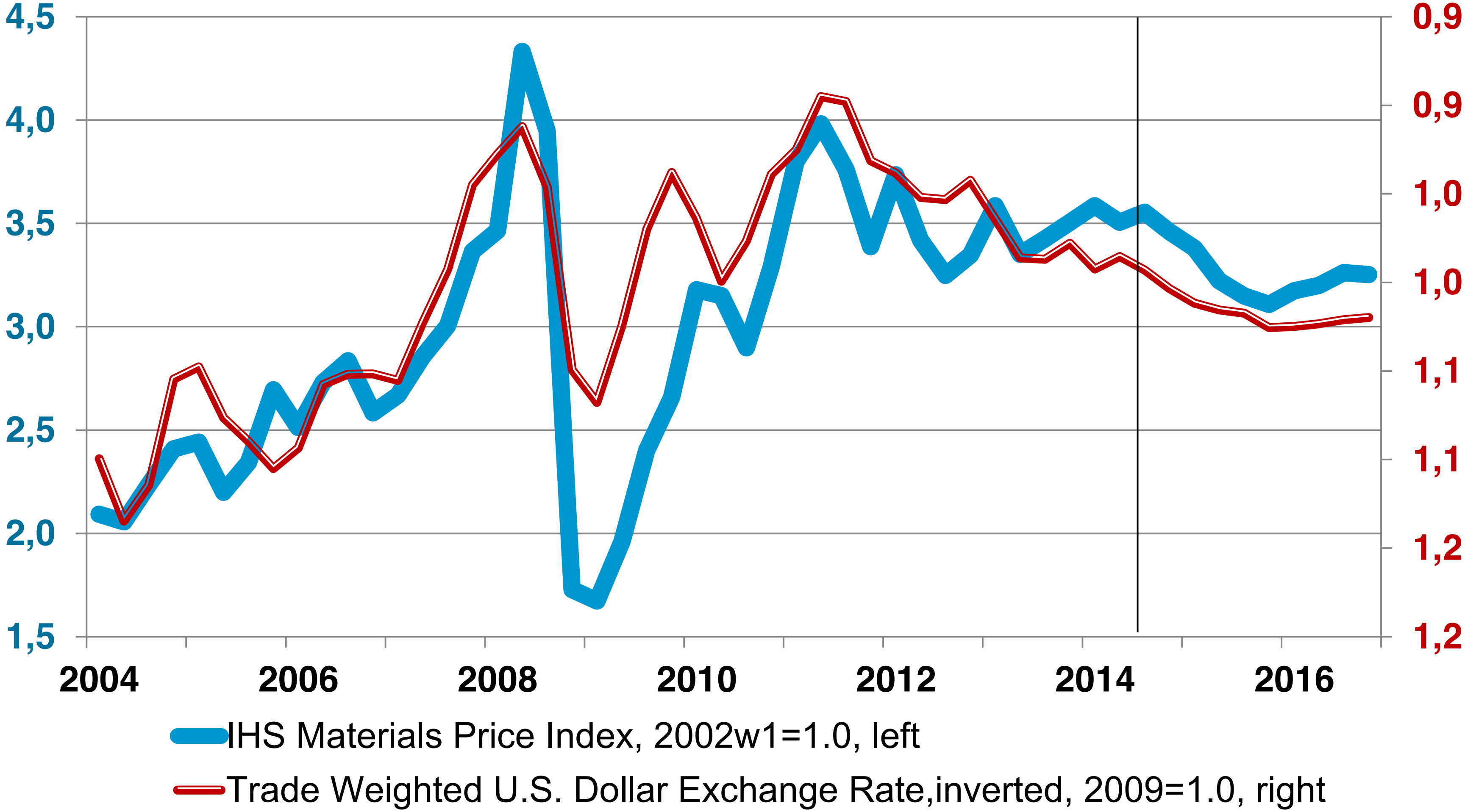


Source: IHS Energy

Second reason price escalation remains muted: slower Chinese growth

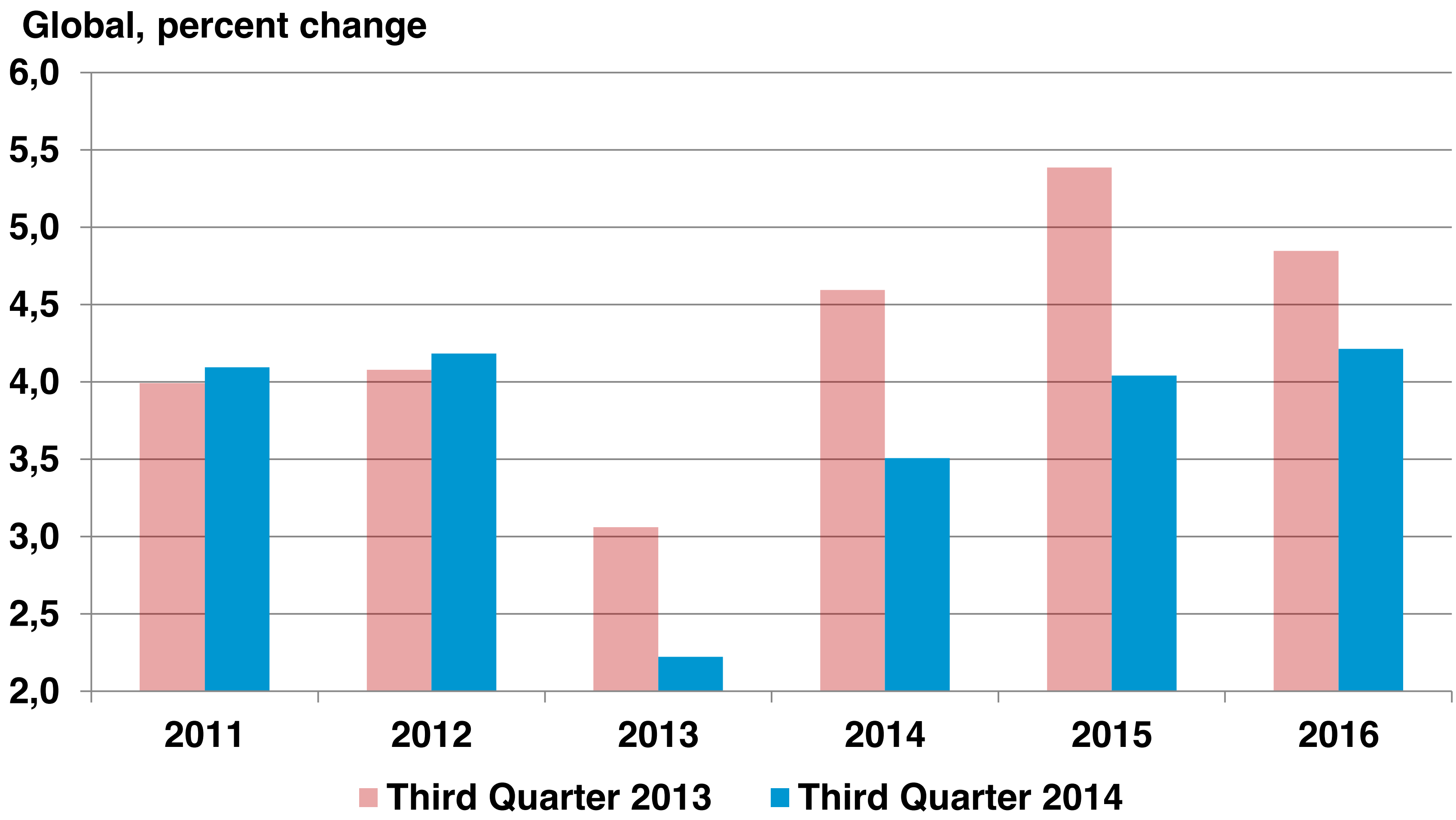


A third reason to expect restrained price escalation: stronger dollar will weaken investor support

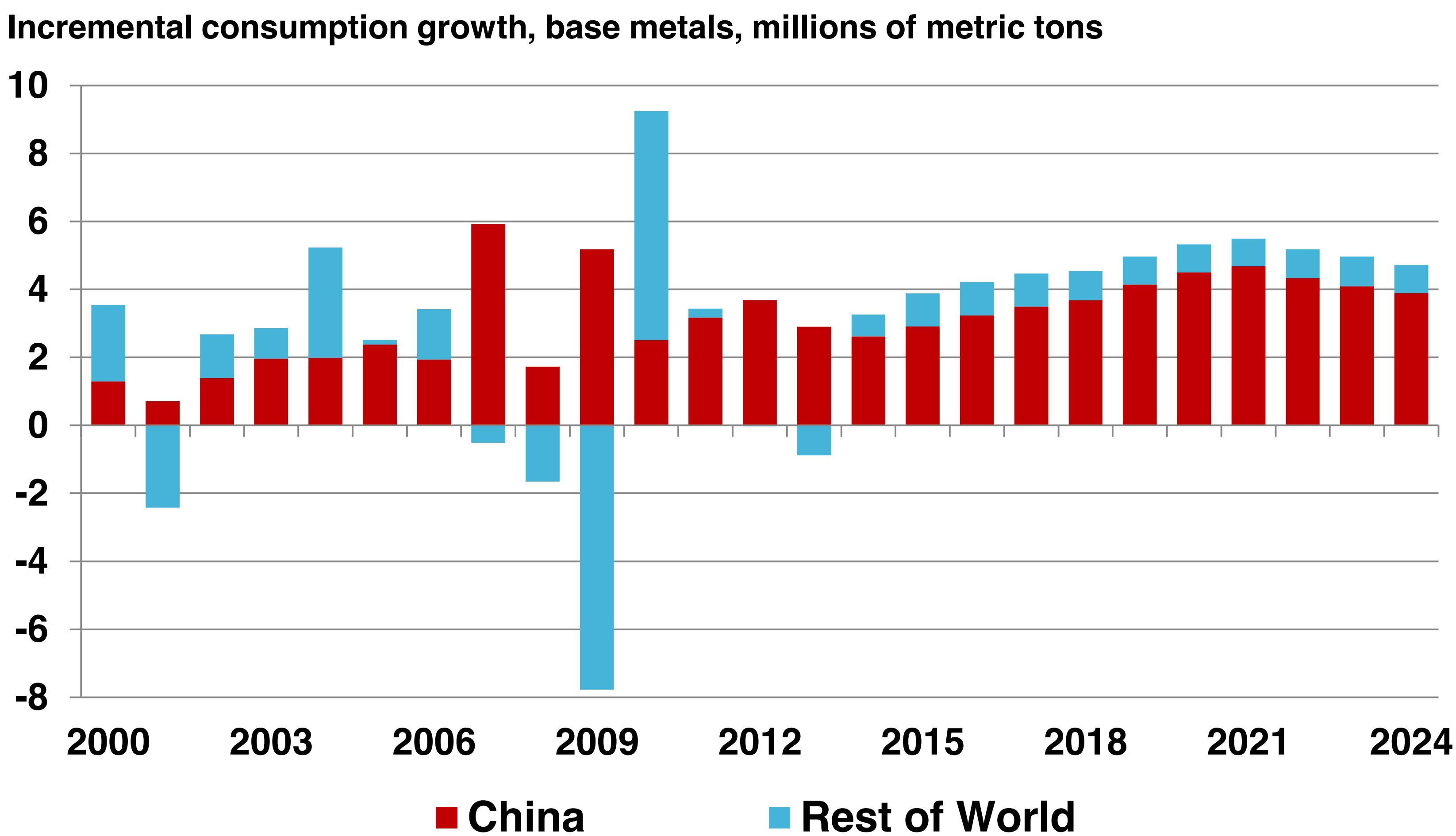


Mining Investment

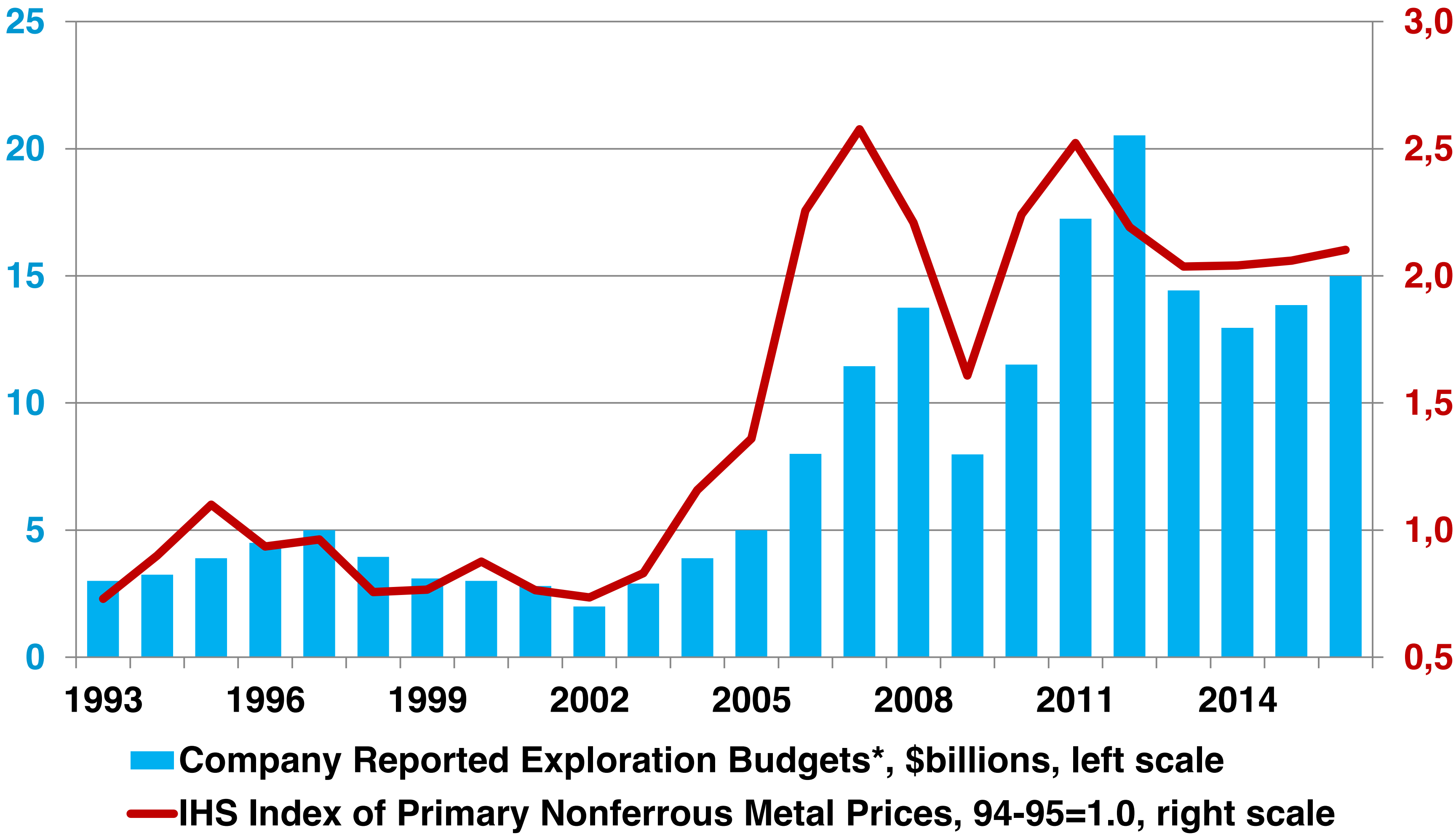
Base metals near-term demand growth – a *slow* acceleration



Longer term challenge – dealing with the transformation in China and its implications for physical consumption growth



The flip side of low prices – cuts in exploration budgets are setting up the next price cycle

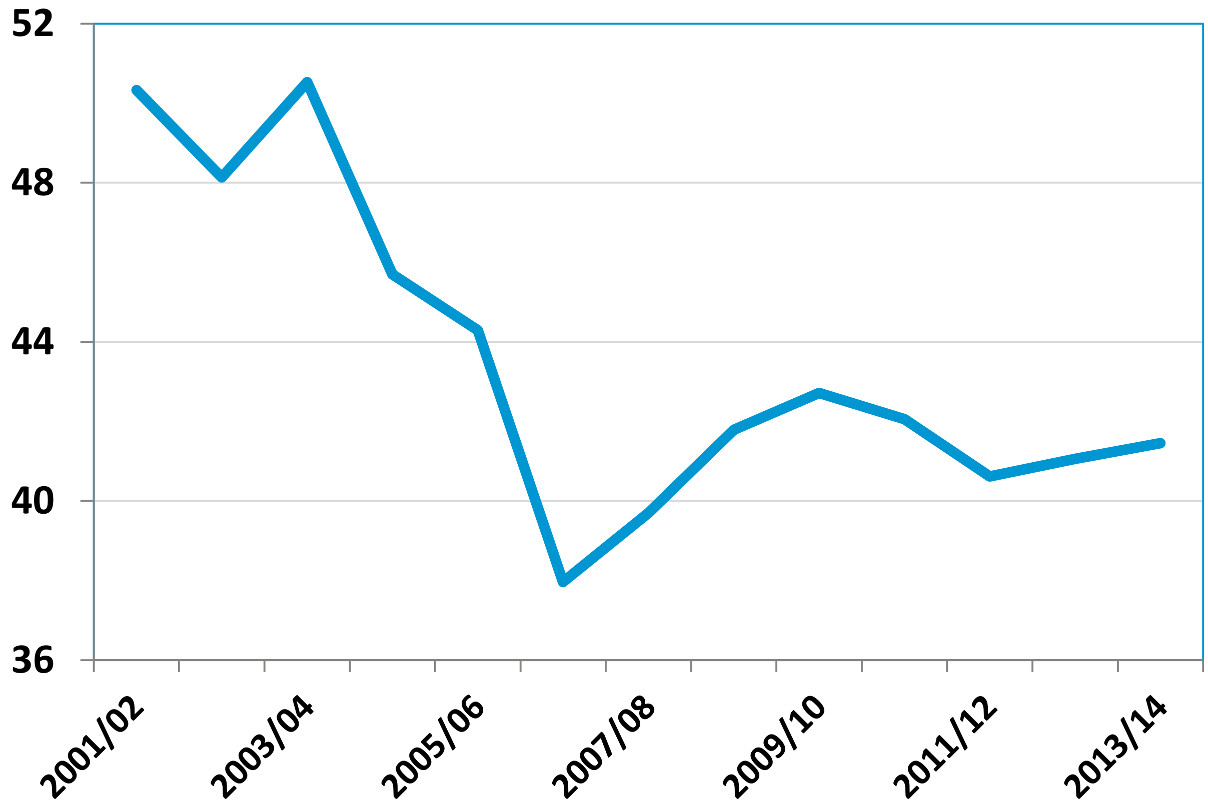


*source: SNL Metals and Mining/IHS

Policy Environment

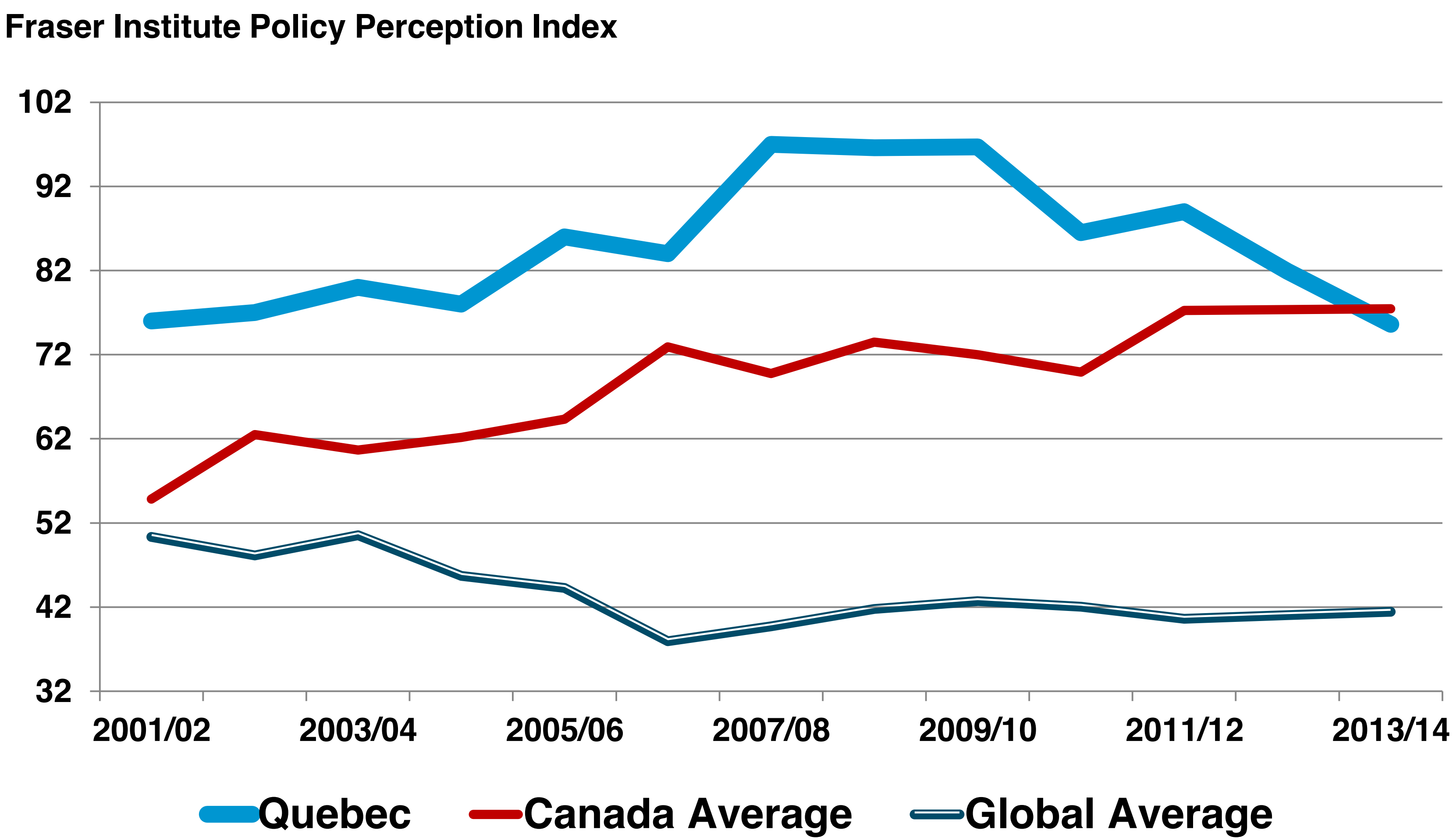
Resource nationalism as a supply side threat

Fraser Institute Global Policy Perception Index



Lower score signals a less attractive exploration environment

Though Quebec and Canada compare very favorably



Lower score indicates a less attractive exploration environment

Concluding thoughts

In a very real sense the supercycle continues to play out.

Discussions of the “supercycle” in the last decade never really considered a true cycle where prices could fall as well as move higher.

Although the lumpy capital intensive nature of commodity markets promotes price volatility, they are also inherently flexible. Over time they do adjust.

The data suggests that we are in a period of adjustment that will carry through the near-term.

But like the high prices of the last decade, lower prices are sowing the seeds of the next upswing.

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Merci -Thank You